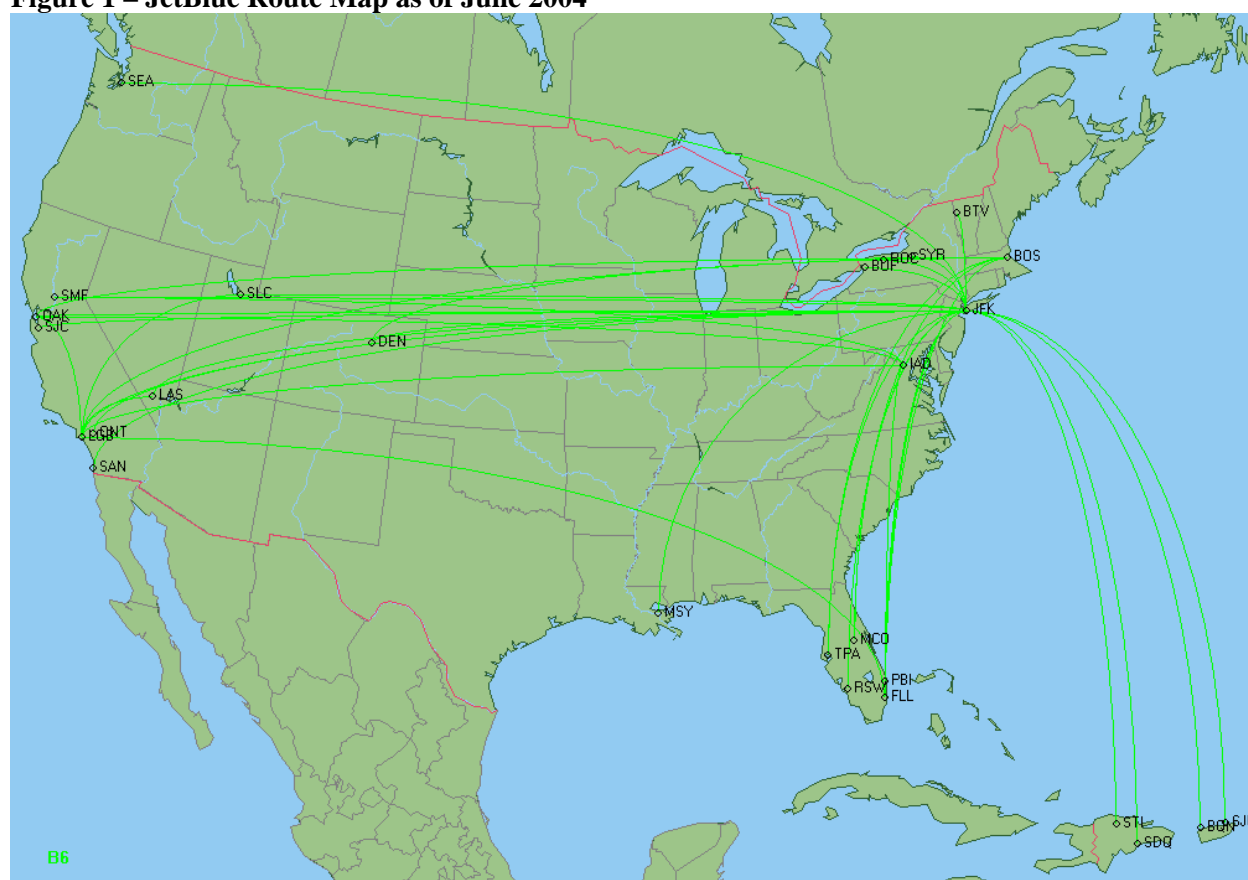


Office of Aviation and International Affairs, Aviation Analysis
JetBlue Enters Boston – First Quarter 2004
Domestic Aviation Competition Issue Brief Number 25

Since commencing operations in February 2000, JetBlue has expanded rapidly while managing to post some of the highest operating margins in the U.S. airline industry. As of the end of the second quarter of 2004, the airline's network reached 27 destinations (see Figure 1) with a fleet of 61 156-seat Airbus A320s. By the end of 2004, JetBlue is scheduled to have 69 Airbus aircraft in its fleet. JetBlue is also the launch customer for the 100-seat Embraer 190, the first of which is scheduled for delivery in August 2005. The carrier has ordered 100 Embraer 190s and also has options on 100 additional aircraft. JetBlue will use the Embraers to expand its network to smaller cities as well as to augment schedules in cities served with the larger A320s.

Figure 1 – JetBlue Route Map as of June 2004



JetBlue has continued to expand its network in 2004. From New York JFK, it added Boston in January, Sacramento in March, Aguadilla, Puerto Rico in May, Santiago, Dominican Republic, Santo Domingo, Dominican Republic, and San Jose, California in June; and New York LaGuardia in September. Service to Phoenix is scheduled to start in October.

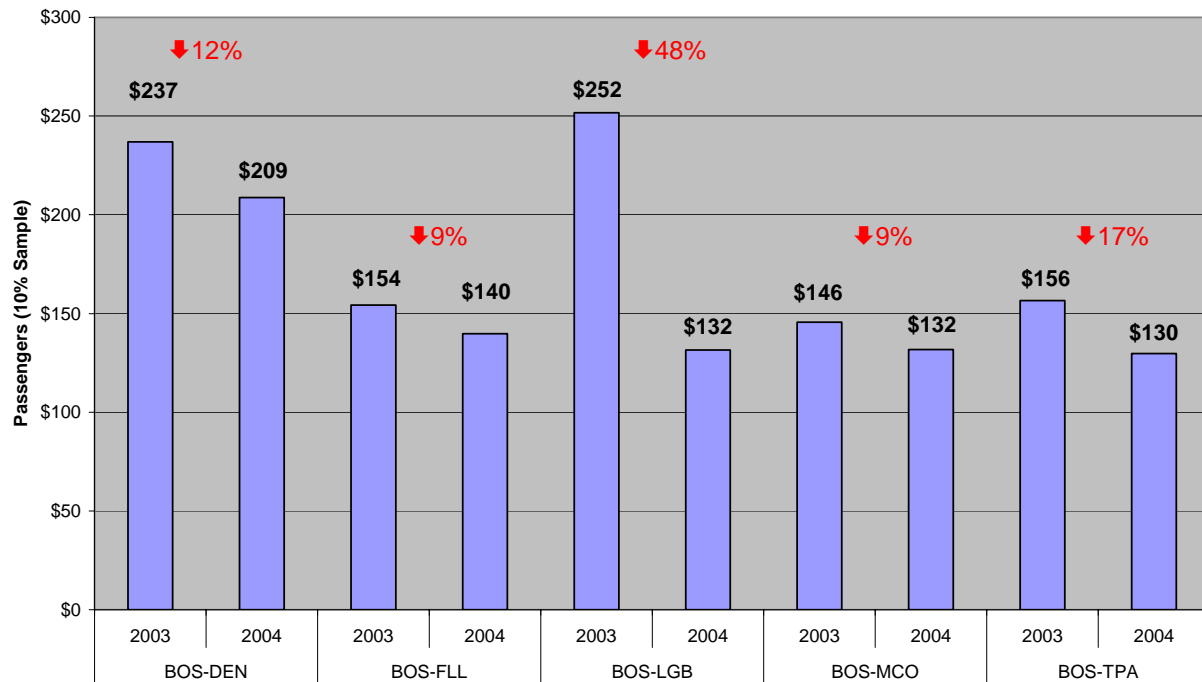
This analysis focuses on JetBlue's entry at Boston. During the first quarter of 2004, JetBlue initiated nonstop service from Boston Logan (BOS) to five destinations: Denver (DEN), Fort Lauderdale (FLL), Long Beach (LGB), Orlando (MCO), and Tampa (TPA). We first examine the impact of JetBlue's entry on prices, traffic, and market share in these five Boston Logan markets. We then examine the extent to

which JetBlue's entry at Boston Logan affected traffic and fares at two other airports in the Boston catchment area, Manchester, NH (MHT) and Providence, RI (PVD).

Boston Airport Pair Analysis

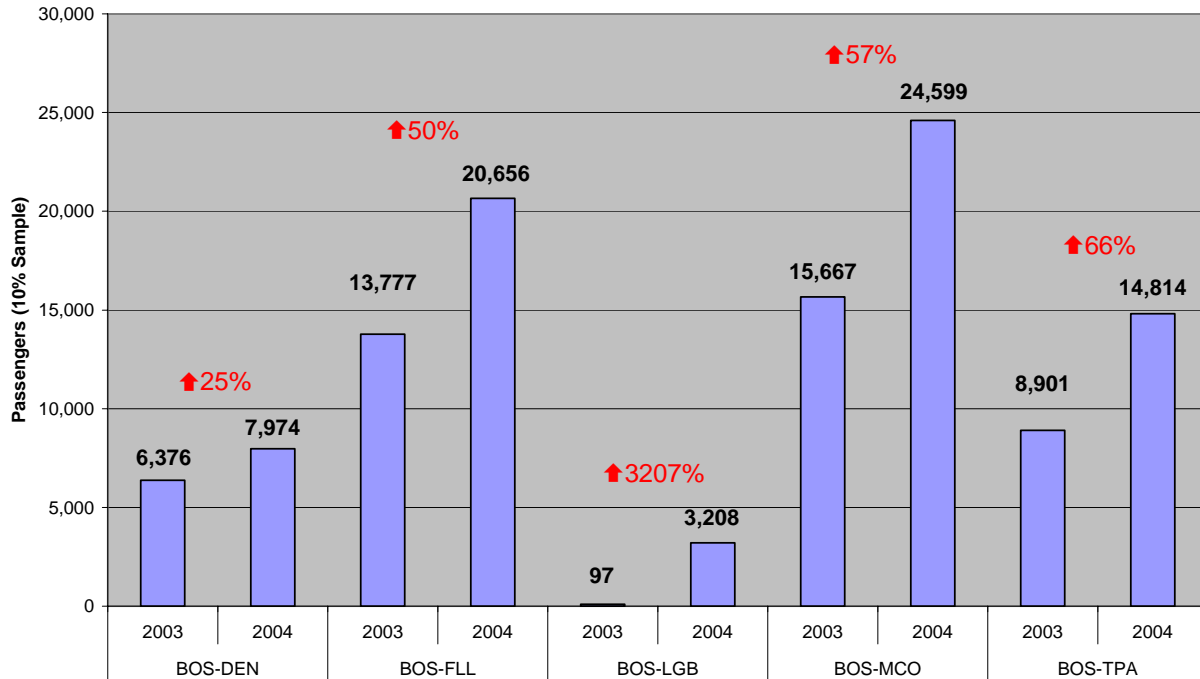
Graph 1 provides the market average fare in the five Boston markets entered by JetBlue with nonstop service for both the first quarter of 2003 (1Q03) before JetBlue's entry, and the first quarter of 2004 (1Q04) when JetBlue's entered. Graph 1 illustrates that the average fare fell in all five markets.

**Graph 1: Average Fares in Boston Airport Pair Markets Entered by JetBlue with Nonstop Service
1st Quarter of 2003 vs. 1st Quarter of 2004**



Graph 2 provides a comparison of fared passengers in each of the markets between 1Q03 and 1Q04. Traffic volume increased in all five markets, with Boston-Long Beach exhibiting the largest increase in percentage terms and Boston-Orlando showing the largest increase in absolute terms. (Note that all traffic figures cited in this report reflect a 10% sample.)

Graph 2: Fared Passengers in Boston Airport Pair Markets Entered by JetBlue with Nonstop Service
1st Quarter of 2003 vs. 1st Quarter of 2004



An examination of the results for the major players in these markets provides additional insight. Table 1 provides data on average fares, fared passengers, and market share for airlines that had a least a 5% market share of total passengers in these markets.

Airport Pair	Carriers with 5% Share	1Q03 Avg Fare	1Q04 Avg Fare	Avg Fare Change	1Q03 Fared Pax (10% Sample)	1Q04 Fared Pax (10% Sample)	Fared Pax Change	1Q03 Mkt Share	1Q04 Mkt Share	Mkt Share Change
BOS-DEN	American	\$179	\$152	-15%	500	472	-6%	8.8%	6.5%	-2.4
	JetBlue	n/a	\$108	n/a		1,480	n/a	n/a	17.0%	n/a
	Delta	\$199	\$158	-21%	290	268	-8%	5.2%	3.6%	-1.6
	Northwest	\$145	\$145	0%	366	298	-19%	5.6%	3.6%	-2.0
	United	\$269	\$260	-3%	4,197	4,563	9%	64.6%	58.2%	-6.4
	Total Market (all airlines)	\$237	\$209	-12%	6,376	7,974	25%	n/a	n/a	n/a
BOS-FLL	American	\$147	\$141	-5%	3,268	4,647	42%	23.3%	22.5%	-0.8
	JetBlue	n/a	\$134	n/a	n/a	3,779	n/a	n/a	17.7%	n/a
	Delta	\$156	\$139	-11%	8,687	9,922	14%	63.1%	48.1%	-15.0
	US Airways	\$149	\$143	-4%	862	1,147	33%	6.8%	6.0%	-0.8
	Total Market (all airlines)	\$154	\$140	-9%	13,777	20,656	50%	n/a	n/a	n/a
BOS-LGB	American	\$244	\$146	-40%	86	105	22%	89.0%	3.4%	-85.6
	JetBlue	n/a	\$131	n/a	n/a	3,093	n/a	n/a	96.3%	n/a
	America West	\$314	\$165	-48%	11	10	-9%	11.0%	0.3%	-10.7
	Total Market (all airlines)	\$252	\$132	-48%	97	3,208	3207%	n/a	n/a	n/a
BOS-MCO	American	\$142	\$133	-7%	2,197	3,873	76%	14.4%	15.9%	1.5
	JetBlue	n/a	\$120	n/a	n/a	7,097	n/a	n/a	28.0%	n/a
	Delta	\$148	\$136	-8%	10,261	11,177	9%	64.8%	45.5%	-19.3
	AirTran	\$143	\$138	-3%	842	702	-17%	5.1%	2.8%	-2.3
	US Airways	\$135	\$138	2%	1,350	1,160	-14%	9.1%	5.2%	-3.9
	Total Market (all airlines)	\$146	\$132	-9%	15,667	24,599	57%	n/a	n/a	n/a
BOS-TPA	JetBlue	n/a	\$121	n/a	n/a	3,942	n/a	n/a	25.9%	n/a
	Delta	\$156	\$128	-18%	6,916	9,056	31%	76.1%	60.9%	-15.2
	US Airways	\$157	\$155	-1%	1,065	838	-21%	12.5%	6.2%	-6.4
	Total Market (all airlines)	\$156	\$130	-17%	8,901	14,814	66%	n/a	n/a	n/a

In the ***Boston-Denver (BOS-DEN)*** market, United was the only airline with nonstop service when JetBlue entered. United's average fare declined 3% while its traffic increased 9%. JetBlue achieved a 17% market share for the quarter. United's market share fell by 6.4 points; however, it remained by far the largest carrier in the market with a 58% share. United achieved a significant average fare premium to JetBlue. United's average fare was \$260 compared to JetBlue's \$108, a premium of 141%. Overall Boston-Denver fared traffic increased 25%.

In the each of the three ***Boston-Florida*** markets – Fort Lauderdale (FLL), Orlando (MCO), and Tampa (TPA) – Delta was the dominant carrier prior to JetBlue's entry. The market share figures for 1Q04 indicate that, while Delta remained dominant after JetBlue's entry, it lost over 15 points of market share in each case. Delta's traffic was up in all 3 markets while its average fare was down, although the extent of the traffic increases and fare declines varied by market. Delta, which uses its Song low-fare product in these markets, achieved a slight average fare premium vis-à-vis JetBlue in all three Florida markets. Overall Boston-Fort Lauderdale fared traffic increased 50%, Boston-Orlando increased 57%, and Boston-Tampa increased 66%.

As Graph 2 above illustrated, JetBlue essentially created a new market with its entry into ***Boston-Long Beach (BOS-LGB)***. Only 97 sample passengers flew in the Boston-Long Beach market during 1Q03. During 1Q04, 3,208 sample passengers flew in the market, an increase of over 3,200%. JetBlue charged passengers an average fare of \$131 during 1Q04. (The impact of JetBlue's entry on the Boston-Los Angeles (LAX) market is examined in the next section.)

Boston Area City Pair Analysis

The analysis above illustrates that after JetBlue's entry into Boston Logan (BOS), average prices fell and the overall market size expanded in each of the five BOS *airport* pair markets JetBlue entered with nonstop service. We have also examined the extent to which fares and traffic changed in the broader Boston catchment area, which we have defined to include Manchester, NH (MHT) and Providence, RI (PVD), after JetBlue's entry at BOS. Table 2 provides detail on average fares and fared traffic for the five Boston area markets JetBlue entered via its nonstop service at BOS, at both the overall city pair market and individual airport pair market levels for both 1Q03 and 1Q04. The last two columns in Table 2 indicate each airport pair's share of the total Boston area market, in 1Q03 and in 1Q04. A more detailed examination of the competitive dynamics in each of these markets, including information on nonstop capacity, appears below Table 2.

Table 2: Average Fares, Fared Passengers, and Airport Share in Boston Area City-Pair Markets Entered By JetBlue - 1st Quarter 2004 (1Q04) vs. 1st Quarter 2003 (1Q03)									
City Pair	Airport Pair	1Q03 Avg Fare	1Q04 Avg Fare	Avg Fare Change	1Q03 Fared Pax (10% Sample)	1Q04 Fared Pax (10% Sample)	Fared Pax Change	1Q03 Airport Share of Total	1Q04 Airport Share of Total
BOS3-DEN	BOS-DEN	\$237	\$209	-12%	6,376	7,974	25%	83%	84%
BOS3-DEN	MHT-DEN	\$240	\$182	-24%	564	1,064	89%	7%	11%
BOS3-DEN	PVD-DEN	\$215	\$247	15%	773	489	-37%	10%	5%
BOS3-DEN Total Market		\$235	\$208	-12%	7,713	9,527	24%	100%	100%
BOS3-FLL	BOS-FLL	\$154	\$140	-9%	13,777	20,656	50%	65%	75%
BOS3-FLL	MHT-FLL	\$146	\$143	-2%	2,475	2,445	-1%	12%	9%
BOS3-FLL	PVD-FLL	\$143	\$143	0%	5,021	4,409	-12%	24%	16%
BOS3-FLL Total Market		\$151	\$141	-7%	21,273	27,510	29%	100%	100%
BOS3-LAX2	BOS-LAX	\$334	\$202	-40%	8,546	15,612	83%	62%	73%
BOS3-LAX2	BOS-LGB	\$252	\$132	-48%	97	3,208	3207%	1%	15%
BOS3-LAX2	MHT-LAX	\$178	\$193	8%	2,288	1,214	-47%	17%	6%
BOS3-LAX2	PVD-LAX	\$175	\$203	16%	2,789	1,398	-50%	20%	7%
BOS3-LAX2	PVD-LGB	\$253	\$294	16%	7	10	43%	0%	0%
BOS3-LAX2 Total Market		\$275	\$191	-31%	13,727	21,442	56%	100%	100%
BOS3-MCO	BOS-MCO	\$146	\$132	-9%	15,667	24,599	57%	45%	54%
BOS3-MCO	MHT-MCO	\$137	\$130	-5%	7,966	9,730	22%	23%	22%
BOS3-MCO	PVD-MCO	\$141	\$133	-5%	10,939	10,838	-1%	32%	24%
BOS3-MCO Total Market		\$142	\$132	-7%	34,572	45,167	31%	100%	100%
BOS3-TPA	BOS-TPA	\$156	\$130	-17%	8,901	14,814	66%	42%	52%
BOS3-TPA	MHT-TPA	\$138	\$135	-2%	5,557	6,026	8%	26%	21%
BOS3-TPA	PVD-TPA	\$140	\$132	-6%	6,567	7,655	17%	31%	27%
BOS3TPA Total Market		\$146	\$131	-10%	21,025	28,495	36%	100%	100%

BOS3 includes BOS, MHT, and PVD. LAX2 includes LAX and LGB.

City Pair Market 1: Boston Area – Denver

Airport Pairs Included:

- *Boston (BOS) – Denver (DEN)*: served nonstop by United in both periods, served nonstop by JetBlue in 1Q04
- *Manchester (MHT) – Denver (DEN)*: no nonstop service in either period
- *Providence (PVD) – Denver (DEN)*: no nonstop service in either period

Results in the overall Boston area-Denver market were almost identical to those in the BOS-DEN airport pair market because the Manchester-Denver and Providence-Denver markets are much smaller than the BOS-DEN market. Both MHT-DEN and PVD-DEN are only served on a connecting basis. Fares fell in the Manchester market, resulting in a traffic increase. However, fares rose in the Providence market, causing traffic to fall and offsetting the increase in Manchester. In this case, it is unclear to what extent, if any, JetBlue's entry into BOS influenced the MHT and PVD markets.

City Pair Market 2: Boston Area – Fort Lauderdale

Airport Pairs Included:

- *Boston (BOS) – Fort Lauderdale (FLL)*: served nonstop by American and Delta in both periods, served nonstop by JetBlue in 1Q04
- *Manchester (MHT) – Fort Lauderdale (FLL)*: limited nonstop service by Southwest in 1Q03
- *Providence (PVD) – Fort Lauderdale (FLL)*: limited nonstop service by Southwest in 1Q04

Overall Boston area- Fort Lauderdale traffic increased 29%. The increase was driven by the 50% increase in traffic in the BOS-FLL market where JetBlue entered, American increased nonstop seat

capacity 36%, and Delta increased nonstop seat capacity 4% by adding its Song product. Traffic and the average fare in the MHT-FLL market were unchanged. The PVD-FLL average fare held steady at \$143 but traffic declined 12%. Delta's PVD-FLL traffic declined 86%.

City Pair Market 3: Boston Area – Los Angeles/Long Beach

Airport Pairs Included¹:

- *Boston (BOS) – Los Angeles (LAX)*: served nonstop by American and United in both periods, served nonstop by America West in 1Q04
- *Boston (BOS) – Long Beach (LGB)*: served nonstop by JetBlue in 1Q04
- *Manchester (MHT) – Los Angeles (LAX)*: no nonstop service in either period
- *Providence (PVD) – Los Angeles (LAX)*: no nonstop service in either period
- *Providence (PVD) – Long Beach (LGB)*: no nonstop service in either period

The overall Boston area – Los Angeles/Long Beach market grew by 56% between 1Q03 and 1Q04. The average fare declined by 31% during the period. While some of the traffic increase/fare decline was undoubtedly due to JetBlue's entry into the BOS-LGB market, part of the change was also attributable to new America West nonstop service in the BOS-LAX market, as well as increased competition from nonstop incumbent American. On the strength of its new nonstop service, America West grew its BOS-LAX traffic by 381%. American increased its BOS-LAX traffic by 138% and boosted its BOS-LAX market share to more than 50%, up from 40% in 1Q03, on a nonstop BOS-LAX capacity increase of 56%. The net result was that total traffic in the BOS-LAX airport pair market grew by 83% while the average fare declined 40%, from \$334 in 1Q03 to \$202 in 1Q04.

Increased nonstop competition in the Boston area – Los Angeles/Long Beach market did appear to have an effect on traffic in the MHT-LAX and PVD-LAX markets, both of which require passengers to make at least one stop. Traffic in both markets declined 50% as the prices in each increased to a similar level as the newly reduced average fare in the BOS-LAX market. The fact that average fares in the MHT-LAX and PVD-LAX markets during 1Q04 were also significantly higher than the average fare in the BOS-LGB market, where JetBlue offered nonstop service, also likely contributed to the decline in passengers in these two airport pair markets.

City Pair Market 4: Boston Area – Orlando

Airport Pairs Included:

- *Boston (BOS) – Orlando (MCO)*: served nonstop by American and Delta in both periods, served nonstop by JetBlue in 1Q04
- *Manchester (MHT) – Orlando (MCO)*: served nonstop by Southwest in both periods
- *Providence (PVD) – Orlando (MCO)*: served nonstop by Southwest in both periods, served nonstop by Delta in 1Q03, limited nonstop service by US Airways in 1Q04

JetBlue's entry at BOS along with an 85% increase in nonstop BOS-MCO seat capacity offered by American were the primary drivers behind the 31% increase in overall Boston Area-Orlando traffic. The PVD-MCO market showed little change year-over-year, despite the termination of nonstop Delta service, as other carriers, particularly Southwest and US Airways recaptured that traffic. Traffic in the MHT-MCO market increased 22%, driven by traffic increases by Southwest.

¹ Long Beach (LGB) – Manchester (MHT) is not listed because there were no LGB-MHT passengers reported to DOT in the relevant time periods.

City Pair Market 5: Boston Area – Tampa

Airport Pairs Included:

- *Boston (BOS) – Tampa (TPA)*: served nonstop by Delta in both periods, served nonstop by JetBlue in 1Q04
- *Tampa (TPA) – Manchester (MHT)*: served nonstop by Southwest in both periods
- *Tampa (TPA) – Providence (PVD)*: served nonstop by Southwest in both periods

Traffic at both Manchester and Providence increased on slight average fare declines. Southwest, the only carrier with nonstop service in these markets, increased its market share in both markets. Southwest's increased market share in the MHT-TPA and PVD-TPA markets came primarily at the expense of Delta, which redirected its focus to the BOS-TPA market in response to JetBlue's entry. Delta, which also transitioned this market to Song, increased its seat capacity in the BOS-TPA market by 25% between 1Q03 and 1Q04,

Conclusion

Our airport pair analysis found that JetBlue's entry lowered average fares and increased traffic in each of the five Boston Logan (BOS) airport pair markets it entered with nonstop service during the first quarter of 2004. Not only did JetBlue bring its own capacity into the market, JetBlue's entry motivated primary incumbent competitors Delta and American to add capacity and lower fares. Our broader Boston catchment area analysis, which included Manchester, NH (MHT) and Providence, RI (PVD), revealed that average fares also fell and traffic also increased in the JetBlue entry markets. Not only did the overall Boston area market size increase as a result of the new competition, in each case Boston Logan's share of the total Boston area market increased year-over-year. However, while Boston Logan's share of the total increased, this share increase was generally driven by the large traffic increases at BOS rather than by decreases at PVD and MHT. On the whole, it does not appear that new competition at BOS had much effect on the MHT and PVD markets, as lower fares at BOS generally grew the overall Boston area market, rather than diverting existing traffic from MHT and PVD. The major exception was the Los Angeles (LAX)/Long Beach (LGB) market, where the MHT and PVD connecting markets experienced traffic declines of about 50%, likely due to lower priced BOS nonstop alternatives, including new nonstop BOS-LAX America West service.